UPDATED DIRECT TESTIMONY OF

KENNETH R. JACKSON

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2009-261-E

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Kenneth R. Jackson and my address is 1426 Main Street, Columbia, South Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am Vice President, Rates and Regulatory Services at SCANA Services, Inc., which provides administrative, management and other services to the subsidiaries and business units within SCANA Corporation, including South Carolina Electric & Gas Company ("Company" or "SCE&G").

Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I am a graduate of the University of South Carolina ("USC") where I received a Bachelor of Science Degree in Business Administration, majoring in Finance. Since graduating from USC, I have completed numerous graduate level courses in Business and Economics. I joined SCE&G in September 1978, where I held various positions within the Rate Department over the next eighteen years. In May 1997, I became Team Leader for Industrial Marketing. In October 1997, I was promoted to Manager of Marketing Research and Sales for the Large Customer Group. In July 1999, I was promoted to Assistant Controller for the Fossil and Hydro Strategic Business Unit. In May 2005, I became Director of Rates and Regulatory Affairs. In October, 2007, I became Vice President, Rates and Regulatory Services. I have also recently served as the Chairman of the Accounting and Finance section of the Southeastern Electric Exchange.

Q. PLEASE SUMMARIZE YOUR DUTIES WITH SCANA SERVICES, INC.

A. I am responsible for the design and administration of SCE&G's electric and gas rates and tariffs, including the electric fuel adjustment and gas cost adjustment. In addition, I am responsible for the Company's electric and gas allocation studies and regulatory accounting function.

Q. HAVE YOU PRESENTED TESTIMONY TO THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA ("COMMISSION") BEFORE?

A. I have testified before this Commission in previous proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to sponsor the initial rate rider, to be effective with the first billing cycle of September 2010, which will allow recovery of SCE&G's costs and lost net margin revenue associated with its Demand Side Management ("DSM") programs along with a reasonable incentive for investing in such programs, all in accordance with Section 58-37-20.

I. BACKGROUND AND STATUTORY FRAMEWORK

Q. WHY IS SCE&G PROPOSING TO IMPLEMENT NEW DSM PROGRAMS AND COST RECOVERY MECHANISMS?

A. As the Commission is aware, in Docket No. 2008-196-E, SCE&G committed to performing a comprehensive analysis of DSM programs, and in Order No. 2009-104(A), the Commission ordered the completion and filing of the Company's DSM assessment. In compliance with this commitment and based on the analysis described in Company Witness Howard's testimony, SCE&G seeks approval to offer to its customers a suite of cost-effective energy efficiency and conservation programs. The programs are more fully discussed in the testimony of Company Witnesses

Howard and Pickles. The rate rider proposed by the Company is designed to allow SCE&G to recover the costs incurred in offering these DSM programs, the lost net margin revenue, and an appropriate incentive of 3% added to the cost of equity which is reasonable and consistent with S.C. Code Ann. § 58-37-20.

Q. HAS THE SOUTH CAROLINA GENERAL ASSEMBLY PROVIDED STATUTORY PROVISIONS TO ALLOW RECOVERY TO ENCOURAGE UTILITIES TO IMPLEMENT DEMAND SIDE MANAGEMENT PROGRAMS?

A. Yes. In Chapter 37 of Title 58 of the South Carolina Code, the General Assembly enacted Section 58-37-20 which provides for recovery of costs incurred including lost margins, as well as providing for incentives to encourage deployment of DSM programs. The pertinent part of the statute states:

> The South Carolina Public Service Commission may adopt procedures that encourage electrical utilities and public utilities providing gas services subject to the jurisdiction of the commission to invest in cost-effective energy efficient technologies and energy conservation programs. If adopted, these procedures must: provide incentives and cost recovery for energy suppliers and distributors who invest in energy supply and end-use technologies that are cost-

effective, environmentally acceptable, and reduce energy consumption or demand; allow energy suppliers and distributors to recover costs and obtain a reasonable rate of return on their investment in qualified demand-side management programs sufficient to make these programs at least as financially attractive as construction of new generating facilities; require the Public Service Commission to establish rates and charges that ensure that the net income of an electrical or gas utility regulated by the commission after implementation of specific cost-effective energy conservation measures is at least as high as the net income would have been if the energy conservation measures had not been implemented.

Q. PLEASE OUTLINE THE KEY PROVISIONS OF SECTION 58-37-20 THAT MOST DIRECTLY PROVIDE AUTHORIZATION FOR THE INCENTIVES, COST RECOVERY AND RELATED RIDER PROPOSED BY SCE&G.

A. There are three major provisions of this statute that directly apply to the Company's filing in this docket. First, the Commission may adopt procedures that encourage electric utilities to invest in cost-effective energy efficient technologies and energy conservation programs. Second, if the Commission chooses to adopt such procedures, those procedures must provide incentives and cost recovery for investment in qualifying programs, along with a reasonable rate of return sufficient to make DSM programs at least as financially attractive as the construction of new generating facilities. Third, if DSM procedures are adopted in this docket, then rates and charges must be established to ensure that the net income of a regulated utility after implementation of specific cost-effective energy conservation measures is at least as high as the net income would have been if the energy conservation measures had not been implemented.

My testimony will address all three of these provisions and explain why our filing is fully authorized by South Carolina law and based on sound regulatory theory and practice.

Q. WHY IS AN INCENTIVE, AS PROVIDED FOR BY THE STATUTE, NECESSARY?

A. DSM programs are designed to reduce energy consumption at the consumer level while maintaining the same quality and reliability of service historically offered by the Company before program implementation. Because SCE&G's revenues are linked to the sale of electricity, the loss of sales through the deployment of demand side management programs will lower the Company's total revenue and negatively impact its financial results. An incentive such as that contemplated by Section 58-37-20 and proposed by the Company is designed to promote DSM investments while mitigating the potentially negative financial impacts and the risks associated with reduced sales experienced through effective DSM programs.

a. RECOVERY OF COSTS

Q. WHAT DSM COSTS IS THE COMPANY SEEKING TO RECOVER THROUGH THE PROPOSED RATE RIDER?

A. The rate rider has been developed to allow the Company to recover its reasonable and prudent costs incurred to implement and operate the DSM programs, including administrative and general costs and overheads. These costs will be deferred as a regulatory asset, and for calculating the rider recovery amount, they will be amortized over a five-year period.

Q. PLEASE EXPLAIN THE RATIONALE BEHIND A FIVE-YEAR AMORTIZATION PERIOD FOR DSM COSTS.

A. A five-year period for calculating the amortization of DSM costs was approved by the Commission for the Company in Order No. 96-15, in Docket No. 95-1000-E at pages 18-19. In the current proceeding, the Company also proposes a five-year period as reasonably balancing the need and interest of the Company in the timely recovery of DSM expenses with the interest of customers in spreading out the recovery of these costs over time. Longer amortization periods require the Company to hold larger balances of unrecovered DSM costs, increasing its carrying costs and risks while placing larger demands on its ability to raise capital.

b. <u>LOST NET MARGIN REVENUE</u>

Q. WHAT METHODOLOGY WILL SCE&G USE TO PROJECT REDUCTIONS IN SALES?

A. As testified to by other Company witnesses, the reductions in MWH sales will be computed using the data contained in the current version of the South Carolina Measures Library Database ("Measures Database") which was developed by Morgan Marketing Partners on behalf of SCE&G, Duke Energy, Progress Energy and Santee Cooper. This Measures Database consists of technologies and building simulations that provide estimates of energy and demand impacts related to numerous DSM measures. The Company may supplement this information or designate another reasonable data source when data not found in the Measures Database is needed to make necessary calculations.

Q. HOW WILL THE COMPANY USE THE INFORMATION FROM THE MEASURES DATABASE?

A. Lost net margin revenue will be calculated for each stated review period based on the forecasted level of customer participation in each DSM measure. Lost net margin revenue will reflect the reduction in demand charges and MWH sales that are calculated to occur as a result of customer participation in each DSM measure exclusive of the reductions that would have happened in the absence of the measures.

Q. HOW DOES THE COMPANY PROPOSE TO TRUE-UP THE LOST NET MARGIN REVENUE IN FUTURE PERIODS?

A. At the end of each review period, the lost net margin revenue for that review period will be recalculated using actual market penetration data. In making these recalculations, actual penetration rates will be converted to reductions in MWH sales using data contained in the applicable DSM Measures Database. Any differences in the calculation of forecasted lost net margin revenue as compared to calculations based on actual penetration rates will be reflected as an increase or decrease to the revenue required to be collected under the rate rider in the prospective review period.

c. RATE OF RETURN INCENTIVE

Q. PLEASE EXPLAIN THE SPECIFIC INCENTIVE PROPOSED BY SCE&G IN THIS CASE AND ITS RATIONALE.

A. SCE&G is asking for an adder of 3% to the equity component of its cost of capital as applied to unrecovered DSM costs as an incentive for investing in these programs.

SCE&G believes that an incentive at this level is sufficient to place investment in DSM programs on a basis that is at least as attractive as investment in generation assets of similar cost. The fact that these DSM costs will be recovered over 5 years, rather than 30 years or more for generation investments, is one important reason that a modest incentive is sufficient in this context. Another important factor allowing SCE&G to propose an incentive at this level is that its recovery does not require complicated administrative determinations or studies, as would be necessary for other types of DSM incentives such as predetermined goals or targets.

Q. WHY DOES THE COMPANY BELIEVE ITS PROPOSED INCENTIVE MECHANISM IS SUPERIOR TO PREDETERMINED GOALS OR TARGETS?

A. SCE&G intends to administer its DSM programs to maximize benefits to customers and its system. It does not believe that pre-determined goals set at this stage of the DSM development process will be useful or appropriate in that effort.

In general, SCE&G believes that the most logical and efficient way to administer its DSM programs is for the Company to be allowed to invest in cost-justified DSM measures with the assurance that it will have the opportunity to recover its costs and the requested incentive so long as its costs were prudent and reasonable at the time they were incurred. Tying recovery of costs and incentives to pre-determined goals injects uncertainty and a significant amount of administrative and monitoring cost into the process. These costs and uncertainties diminish the value of the incentive to the Company and the attractiveness to the Company of investing in DSM programs.

Q. DO YOU FORESEE DIFFICULTIES IN SETTING GOALS AT THIS TIME?

A. Yes. It would be difficult to forecast with accuracy the future results of the proposed DSM programs, particularly at this early stage of the process. The reasons include uncertainties as to the level of customer acceptance and participation in the proposed programs, the recruiting and training of trade allies and their performance, economic conditions in SCE&G's service territory, changes in technology and in the cost of energy efficient measures relative to alternatives, changes in governmentally-mandated efficiency standards, and other factors. All these uncertainties make setting goals at this time very difficult. Therefore, we respectfully urge the Commission to allow the Company to proceed with its DSM programs at this stage without attempting to establish predetermined and artificial goals.

Q. HOW DOES THE COMPANY PROPOSE TO CALCULATE THE INCENTIVE RETURN?

A. SCE&G proposes to compute an incentive return factor to be applied to the projected balance held in the DSM account for the upcoming review period based on a projection of the unrecovered balance in that account as of the close of each month during the period. The incentive return factor will reflect SCE&G's current capital structure and current cost of debt and equity, plus an equity incentive of 3% added to the Company's Commission-approved return on equity, which is currently 11% as set forth in Order No. 2007-855. The sum of these monthly amounts will then be adjusted for any over-recovery or under-recovery of the return in the immediate past period.

II. <u>THE RATE RIDER AND OPT-OUT REQUIREMENTS</u>

Q. PLEASE EXPLAIN THE DESIGN OF THE PROPOSED RIDER.

A. As more fully described in Exhibit No. ___ (KRJ-1) attached to this testimony, the proposed rate rider consists of a charge per kilowatt hour

("KWH") and is specifically calculated for each customer class. The rider is designed to allow SCE&G to recover its costs, lost net margin revenues and an incentive associated with offering DSM programs to its customers in South Carolina. The costs include all of SCE&G's reasonable and prudent costs incurred in adopting and implementing DSM measures and programs. Additionally, the rate rider provides for recovery of SCE&G's lost net margin revenue which reflects the projected reduction in demand charges ("MW") and energy charges ("MWH") that are calculated to occur as a result of customer participation in each DSM program. Finally, the proposed rate rider will provide SCE&G with an appropriate incentive adder of 3% on the cost of equity applied to the outstanding monthly balance of the DSM account.

Q. HOW DOES SCE&G PROPOSE TO CALCULATE THE AMOUNT OF LOST NET MARGIN REVENUE TO BE RECOVERED UNDER THE RATE RIDER?

A. The amount of lost net margin revenue will be forecasted by customer class on an annual basis using data for actual and expected market penetration for each DSM measure. Any difference between the prior year's forecasted amount and the amount calculated based on actual market penetration during the year will be reflected as an increase or decrease to the revenue required to be collected under the rate rider in the upcoming period.

Q. HOW WILL THE COMPANY ADJUST THE RIDER IN THE EVENT ITS RATES ARE AMENDED PURSUANT TO A GENERAL RETAIL ELECTRIC RATE CASE?

A. The amounts reflected in the rate rider for lost net margin revenue will be reset each time the Company implements new retail electric rates as a result of a general retail electric rate case. Upon implementation of the new retail electric rates, the charges to be collected under the rider will be recalculated to reflect the fact that, under standard rate making methodologies, the lost net contribution to margin revenue as of the end of the test period will be reflected in the new rates being set. In recalculating the revenue requirement to be collected under the rider after new electric rates are ordered, the existing revenue requirement being collected under the rider will be reduced by the lost net margin revenue recorded as of the close of the test year. Additional lost net margin revenue will occur as new participants are enrolled in the DSM programs after the close of the test period. The additional lost net margin revenue will not be deducted from the revenue requirement to be recovered through the rider.

Q. HAS THE COMPANY ESTIMATED THE COST OF OPERATING THE PROGRAM?

A. Yes, it has. Attached to this testimony as Exhibit No. __ (KRJ-2) are the Company's estimates of the revenue requirement by customer class. This exhibit also reflects the calculation of the estimated rate rider to be effective with the first billing cycle of September 2010.

As the exhibit reflects, the DSM account balance as of October 31, 2009, which includes actual expenditures made by the Company through this date, is $616,238. As well, the Company incurred actual expenses during the period November 1, 2009 through November 30, 2009, in the amount of $43,497. Therefore, the total DSM account balance as of November 30, 2009, is $659,735. Pursuant to the Company's request to amortize the DSM account balance over five years, the annual amortized amount of the account balance would be $131,947. However, due to the postponement of the hearing in this matter and the resulting delayed implementation of the Company's programs, only $32,988 of amortization expense for the three-month period of September 1, 2010 through November 30, 2010 is included in the calculation of the rider for the initial period.

Additionally, the Company anticipates lost net margins for the period July 1, 2010 through November 30, 2010 to be approximately $2,078,000. This amount assumes that the Company's initial DSM projects will be available, subject to Commission approval, on July 1, 2010. The incentive return for the period September 1, 2010 through November 30, 2010, is projected to be $346,948, comprised of a debt component and the currently authorized return on equity of 11% and the incentive adder of 3%.

Accordingly, the total revenue requirement ($32,988 + $2,078,000 + $346,948) is approximately $2,457,936 through the initial period ending November 30, 2010.

Q. HOW DOES THE COMPANY PROPOSE TO ALLOCATE THE REVENUE REQUIREMENT?

A. SCE&G will track participation in DSM programs by customer class. SCE&G will assign direct DSM program costs and lost net margin revenue accordingly. General and administrative costs and other indirect DSM costs will be allocated to customer classes in the same proportions that direct costs are allocated, unless the Company identifies a specific justification to do otherwise. SCE&G will also track revenues under the DSM rider by customer class.

Q. HAS THE COMPANY CALCULATED THE RATE RIDER FOR THE INITIAL PERIOD, USING THE ALLOCATION METHODOLOGY ABOVE?

A. Yes, it has. The rate rider attached to this testimony as Exhibit No.

___ (KRJ-3) contains specific rates by customer class to be effective with the first billing cycle of September 2010. The rates per KWH to be applied pursuant to this rider are as follows:

Residential	$0.00026
Small General Service	$0.00032
Medium General Service	$0.00011
Large General Service	$0.00003

Q. WHAT EFFECT WILL THE RIDER HAVE ON RATES BILLED TO CUSTOMERS?

A. Based on the estimated impacts and costs of the proposed programs, the Company estimates that the initial rate rider will add approximately $0.26 per month to the bill of an average residential customer using 1,000 KWH per month.

Q. WILL THE RATE RIDER APPLY TO COMMERCIAL AND INDUSTRIAL CUSTOMERS AS WELL?

A. The rider will generally apply to all of SCE&G's commercial and industrial customers; however, the Company is proposing to allow certain large commercial and industrial customers to "opt-out" of being subject to cost recovery of the DSM program under certain specified conditions.

Q. WHAT ARE THE CONDITIONS FOR OPTING-OUT OF THE RIDER?

A. As more fully described in Exhibit No. ___ (KRJ-4), large commercial and industrial customers may be eligible to opt-out of DSM programs and costs if they have either 1) an average of monthly billing demands over the past 12 months (“Average Demand”) that is equal to or greater than 3,500 kW at a single site with contiguous services, or 2) for at least two non-contiguous premises, the sum of the Average Demands must be equal to or greater than 6,000 kW with each premise having an Average Demand equal to or greater than 100 kW. Customers wishing to opt-out of DSM programs and recovery of DSM costs will be required to certify that they have conducted an energy efficiency audit within the past three years and are implementing measures that are at least equivalent in energy and demand savings to those anticipated under the Company’s DSM program for the applicable customer class.

Q. WHY DOES SCE&G BELIEVE THAT LIMITS ARE NECESSARY ON CUSTOMERS ABILITY TO OPT-OUT OF THESE PROGRAMS AND THEIR COSTS?

A. When customers opt-out of these programs, the DSM costs that they avoid are shifted to the customers that remain subject to the rider. These opt-out thresholds have been set at levels that minimize the rate impacts to customers that do not elect to opt-out and encourage broad participation in these programs and broad sharing of costs. SCE&G believes that setting the opt-out thresholds at these levels will allow the opt-out provision to be available to those customers whose size and commitment to energy efficiency allows them to provide comparable conservation benefit to the system through internally administered programs. SCE&G also believes that setting the opt-out threshold on a KW rather than a KWH basis is preferable since KWH consumption can vary significantly month to month and year to year. This variation can lead to uncertainty for the Company and its customers and instability in the programs subject to opt-out.

Q. HOW WILL THE COMPANY TREAT RIDER REVENUES AND DSM ACCOUNT AMORTIZATION IN ITS ACCOUNTING BOOKS AND RECORDS?

A. Monthly, as customers are billed under the rider, the Company will record as revenue all three components of the rate rider with the three components being (1) lost net margin revenue, (2) incentive return and (3) amortization of DSM account recovery. The Company will then record, as expense, amortization of the deferred DSM account balance in an amount equal to the revenue associated with the amortization component of the rider.

In addition, the Company proposes the establishment of an under or over – recovery regulatory asset or liability account (“Lost Net Margin Revenue Adjustment Account”) where it will record the difference between actual lost net margin revenue based on market penetration and the forecasted lost net margin revenue being recovered through rates. The use of this Lost Net Margin Revenue Adjustment Account will ensure that actual lost net margin revenue is recorded in the appropriate accounting period.

Similarly, the Company proposes the establishment of an under or over –recovery regulatory asset or liability account (“Incentive Return Adjustment Account”) where it will record the difference between the incentive return calculation based on the actual balances held in the DSM account and the forecasted incentive return being recovered through rates. The use of this Incentive Return Adjustment Account will ensure that the actual incentive return is recorded in the appropriate accounting period.

These adjustment accounts would only function to ensure accurate reporting of income by the Company. The lost net margin revenue and incentive return to be recovered through the rider would be calculated as set forth in this testimony and attached exhibits.

Q. WILL THE COMMISSION AND THE OFFICE OF REGULATORY STAFF BE ABLE TO REVIEW THE EFFECTS OF THE COMPANY’S DSM PROGRAMS?

A. Yes. The Company will make an annual filing with the Commission regarding the reasonableness and prudence of its incurred costs of providing these programs and recalculating and adjusting the rider for each customer class. ORS will have the ability to review and audit the results of any of the programs. The Company would not implement any proposed adjustments to the rider until at least three months after filing to allow for public comment and for the Commission's and ORS's review.

Q. IN FUTURE FILINGS, WILL THE COMPANY REQUEST THAT THE ANNUAL ADJUSTMENT TO THE RATE RIDER BECOME EFFECTIVE WITH THE FIRST BILLING CYCLE IN SEPTEMBER OF EACH YEAR AS IT IS DOING IN THIS PROCEEDING?

A. No. In this initial period, SCE&G is requesting that the rate rider become effective with the first billing cycle of September 2010. However, the Company is delaying the effective date of this request due to the postponement of the hearing in this matter and the resulting delay in the implementation of the Company's programs. As reflected in Exhibit ___(KRJ-1), the Company will make its future annual filings on or about January 31st of each year. In order to provide the Commission and ORS at least three months to review the filing as I discussed previously, SCE&G will request in the future that the annual adjustments to the rate rider become effective with the first billing cycle of May of each year.

III. <u>THE COMPANY'S REQUEST</u>

Q. WHAT IS THE COMPANY ASKING OF THE COMMISSION IN THIS PROCEEDING?

A. SCE&G requests that the Commission approve the Rider to Retail Rates attached to this testimony, which is designed to allow SCE&G to recover all costs reasonably and prudently incurred and net margin revenue lost in offering DSM programs. In addition, the Company requests approval of an appropriate incentive return of 3% added to the currently authorized return on equity of 11%, both of which will be applied to the projected balance held in the DSM account to calculate the total return, as set forth in this testimony and exhibits. The Company also requests that the Commission approve the use of a regulatory asset account to defer all reasonable and prudent costs incurred in formulating, administering, publicizing, delivering, measuring, tracking and analyzing DSM programs. In addition, the Company requests that the Commission approve the establishment of the Lost Net Margin Revenue and Incentive Return Adjustment Accounts to allow the Company to accurately record these amounts in the appropriate accounting period. Finally, it is the Company's request that the programs set forth in the testimony of Company Witnesses Howard and Pickles be approved for implementation, all subject to

Commission review and ORS audit and analysis in future annual filings and other relief requested in the Company's filing.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Recovery of DSM Expenses, Incentive Return and Lost Net Margin Revenue

1. Overview

This Exhibit provides a description of how South Carolina Electric & Gas Company ("SCE&G" or the "Company") proposes to recover its Demand Side Management ("DSM") expenses, incentive return and lost net margin revenue using a rate rider applicable to retail electric service. As described below, the rate rider will consist of a charge per kilowatt hour ("KWH") and will be specifically calculated for each customer class. The rider will be set at a level sufficient to recover:

- **a.** DSM program expenses and overheads amortized over five years,
- **b.** An incentive return for investing in DSM programs and
- **c.** Lost net margin revenue forecasted to occur as a result of the DSM programs reducing demand charges and megawatt hour ("MWH") sales between each retail electric rate case.

In establishing the amount of revenue to be recovered under the rate rider, the amount of lost net margin revenue will be forecasted by customer class on an annual basis using data for actual market penetration for each DSM measure. Any difference between the prior year's forecasted amount and the amount calculated based on actual market penetration during the year will be reflected as an increase or decrease to the revenue required to be collected under the rate rider in the prospective review period.

2. Annual Adjustment

The rates for each customer class will be recalculated and adjusted annually. Each year, on or about January 31st, the Company proposes to file the rate adjustments for each customer class with the Commission. The Company would not implement the proposed adjustments until at least three months after filing to allow for public comment and any review of the filing that the Commission might deem appropriate. The Company proposes that the initial review period run from the effective date of the rate rider proposed in this docket to November 30, 2010. Thereafter, the Company proposes an annual review period of December 1st through November 30th, provided that SCE&G must notify the Commission and ORS in writing prior to any change or adjustment in the review period.

3. The Regulatory Asset Account for DSM Expenses.

- **a.** DSM expenses shall include all costs of formulating, administering, publicizing, delivering, measuring, tracking and analyzing DSM programs, including administrative and general costs and overheads, legal and consulting costs, costs of advertising and promotion, training and recruitment costs, costs of incentives and payments to third parties, costs of resolving or settling claims and disputes, and other costs related to these programs. SCE&G will create a regulatory asset on its books for DSM expenses ("DSM Account").
- **b.** As DSM expenses are recognized, they will be booked as a debit to the DSM Account.
- **c.** SCE&G will credit the DSM account monthly to reflect the 5-year amortization recovery of covered DSM expenses.

4. Cost Recovery

The DSM expenses, incentive return and lost net margin revenue will be calculated and recovered under the rate rider as follows:

a. Calculation of Lost Net Margin Revenue

Lost net margin revenue will be calculated for each prospective review period based on the forecasted level of customer participation in each DSM measure. Lost net margin revenue will reflect the reduction in demand charges and MWH sales that are calculated to occur as a result of customer participation in each DSM measure exclusive of the reductions that would have happened in the absence of the measures. The reductions in MWH sales will be computed using the data contained in the then-current version of the South Carolina Measures Library Database ("Measures Database")[1] or such successor data source as the Company may reasonably designate, supplemented as required where data not found in the database is needed to make the necessary calculations. Margin revenue will equal electric revenue by rate schedule less fuel costs and will be computed on a per KWH basis.

Lost net margin revenue associated with the upcoming period will be calculated based on forecasted participation rates. At the end of each review period, the lost net margin revenue for that review period will be recalculated using actual market penetration data. In making these recalculations, actual penetration rates will be converted to reductions in MWH sales using data contained in the applicable Measures Database. Any differences in the calculation of forecasted lost net margin revenue to actual will be reflected as an increase or decrease to the revenue required to be collected under the rate rider in the prospective review period. The Company will

[1] In 2008 Morgan Marketing Partners (MMP) was retained jointly by SCE&G, Duke Energy, Progress Energy and Santee Cooper to develop a "Measures Database" of technologies and building simulations that would provide estimates of energy and demand impacts related to numerous DSM measures. MMP had developed a similar DSM Measures Database for North Carolina. The scope of the work included four weather stations, ten commercial building types and sixteen configurations of new and existing residential homes. MMP and its subcontractors, Franklin Energy Services, Integral Analytics Inc. and Building Metrics Inc., developed the Measures Database and MMP provided it in its final form to SCE&G in 2009.

track the difference between actual lost revenue and forecasted lost revenue in a separate regulatory asset or liability account.

b. Resetting of Lost Net Margin Revenue

The amounts reflected in the rate rider for lost net margin revenue will be reset each time the Company implements new retail electric rates as a result of a general retail electric rate case. Upon implementation of the new retail electric rates, the charges to be collected under the rider will be recalculated to reflect the fact that under standard rate making methodologies the lost net contribution to margin revenue as of the end of the test period will be reflected in the new rates being set.

In recalculating the revenue requirement to be collected under the rider after new electric rates are ordered, the existing revenue requirement being collected under the rider will be reduced by the lost net margin revenue forecasted as of the close of the test year. This amount will be calculated to equal the participation rates for DSM measures at the close of the test period multiplied by the KWH savings per participant reflected in the applicable DSM Measures Database for that measure.

Additional lost net margin revenue will occur as new participants are enrolled in the DSM programs after the close of the test period. The additional lost net margin revenue will not be deducted from the revenue requirement to be recovered through the rider. Adjustments in the rider associated with the implementation of new retail rates will not change the schedule for annual reviews of the rider.

c. Calculation of the Amount to Be Recovered by the Rate Rider

The amount of DSM expenses, incentive return and lost net margin revenue to be recovered through the rider shall be computed as follows.

i. **Amortization of DSM Regulatory Asset** SCE&G will amortize, over five (5) years, the balance held in the DSM Account at the close of each review period.
ii. **Incentive Return** - SCE&G will compute an incentive return factor to be applied to the projected balance held in the DSM Account for the up-coming review period based on a projection of the unrecovered balance in that account as of the close of each month during the period. The incentive return factor will reflect SCE&G's current capital structure and current cost of debt and equity plus an equity incentive of three percentage points added to Company's Commission-approved return on equity. The sum of these monthly amounts will be adjusted for any over-recovery or under-recovery of the return in the immediate past period. The past period over-recovery or under-recovery will be measured based on the actual monthly balances in the DSM Account during the period.
iii. **Lost Net Margin Revenue** - Lost net margin revenue for the review period, computed as described above, and including any adjustment for over-

forecasting or under-forecasting in the prior period, will be included in the revenue requirement to be recovered.

d. Allocation of Revenue Requirement

SCE&G will track participation in DSM programs by customer class. SCE&G will assign direct DSM program costs and lost net margin revenue accordingly. General and administrative costs and other indirect DSM costs will be allocated to customer classes in the same proportions that direct costs are allocated, unless the Company identifies a specific justification to do otherwise. SCE&G will also track receipts under the DSM rider by customer class. Rider adjustments will be made based on these allocations.

SCE&G
DSM Rate Estimate

	Total	Residential	SGS	MGS	LGS
1) Estimated Amortization Expense					
- DSM Account Balance @ 11/30/2009	$ 659,735	$ 453,700	$ 48,622	$ 36,747	$ 120,666
÷ 5 Years = Annual Amortization Estimate	$ 131,947	$ 90,740	$ 9,724	$ 7,350	$ 24,133
÷ 12 Months = Monthly Amortization Estimate	$ 10,996	$ 7,562	$ 810	$ 613	$ 2,011
3 Months Amortization Expense	$ 32,988	$ 22,686	$ 2,430	$ 1,839	$ 6,033
2) Forecasted Lost Net Margin Revenue					
Estimate for 7/1/2010 through 11/30/2010	$ 2,078,000	$ 1,127,000	$ 685,000	$ 168,000	$ 98,000
3) Estimated Incentive Return					
For Period 9/1/2010 through 11/30/2010	$ 346,948	$ 238,842	$ 25,503	$ 19,276	$ 63,327
4) Annual Total Cost Estimate for Recovery	$ 2,457,936	$ 1,388,528	$ 712,933	$ 189,115	$ 167,360
5) Projected Retail Sales in GWH During First Rate Period					
September, 2010 - April, 2011	14,796	5,259	2,197	1,668	5,672
6) Estimated Rate per KWH		**$ 0.00026**	**$ 0.00032**	**$ 0.00011**	**$ 0.00003**

SOUTH CAROLINA ELECTRIC & GAS COMPANY **ELECTRICITY**

RIDER TO RETAIL RATES **DEMAND SIDE MANAGEMENT COMPONENT**

APPLICABILITY

Service supplied under the Company's retail electric rate schedules is subject to approved Demand Side Management (DSM) program cost adjustments. The rates shown below are applicable to and a part of the Company's South Carolina retail electric rate schedules and included in the monthly rate provision of the applicable schedule used in billing and shall therefore be added to customer's monthly bill statement:

DSM RATES BY CLASS ($/kWh)

Customer Class	DSM Factors
Residential	**0.00026**
Small General Service	**0.00032**
Medium General Service	**0.00011**
Large General Service	**0.00003**

DERIVATION OF FACTORS

Demand Side Management costs to be recovered in an amount rounded to the nearest one-thousandth of a cent per kilowatt-hour, will be determined by the following formula:

A = D / S

A = Customer Class Specific DSM Program Costs Rate Adjustment per kilowatt-hour applied to base rates rounded to the nearest one-thousandth of a cent.

D = DSM revenue requirement for the period calculated as (((C - P) * R) + P + L)

Where:

C = Balance of DSM costs from existing programs at the beginning of the annual review period;

P = One-year of DSM amortization expense;

R = The gross-of-tax overall rate of return using the Company's actual capitalization and embedded costs at the end of the annual review period (see Definitions). This includes the Company's approved rate of return on equity in its last general rate proceeding plus a three percent incentive adder;

L = Lost net margin revenue is based on forecasted kWh sales reductions attributable to DSM programs implemented and is "trued-up" for the actual impact on prior year sales.

S = Projected customer class specific sales, defined as retail kilowatt-hour sales from each class of customers for the current period, less sales from customers who have been approved for opt-out status.

The appropriate revenue-related tax factor is to be included in these calculations.

"OPT-OUT" PROVISION

1. Large commercial and industrial customers may be eligible to opt-out of DSM programs and costs so long as the conditions set forth below are being met. Eligible customers are those business entities using the Company's standard electric service with either: (1) an average of monthly billing demands over the past 12 months ("Average Demand") that is equal to or greater than 3,500 kW at a single site with contiguous services, or (2) for at least two non-contiguous premises, an Average Demand that is equal to or greater than 6,000 kW with each premise having an Average Demand equal to or greater than 100 kW. For the purpose of meeting the threshold in (2), a business entity is defined as a single corporation, partnership, company or individual owner and does not include individual franchise units of a business nor subsidiaries operating as a separate corporation or partnership. This provision is not available to entities which form an association or similar organization and is not available for residential customers or resale service.
2. Customers may not selectively opt-out of individual programs, but must elect to opt-out of all programs as a group for all eligible accounts.
3. Customers wishing to opt-out of DSM programs and recovery of DSM costs shall certify in writing to the Company that they have conducted an energy efficiency audit within the past three years and are implementing measures that are at least equivalent in energy and demand savings to those anticipated under the Company's DSM program for the applicable customer class. Certifications shall be valid for 12 months.

4. Reductions in usage due to on-site generation, co-generation, shut down or reduction in usage of facilities, shifting of production to another site, or any other reduction not due to an increase in the efficiency of the equipment or processes per unit of output shall not qualify as an element of a Customer's energy efficiency plan.

5. Any Customer who participates in one of the Company's programs, or whose request to opt-out is denied or discontinued, may not seek to opt-out for a period equal to the amortization period used by the Company in the recovery of program costs. Customers who opt-out but later elect to participate in one of the Company's programs may do so upon application to the Company. If acceptable to the Company, the Customer may participate in the Company's programs, but may not apply to opt-out again for a period at least as long as the amortization period.

Since DSM charges are included and a part of retail rates, customers qualifying for the opt-out provision shall receive the following DSM Credit on their monthly bill statement:

DSM Credit = Billed kWh times the applicable DSM Rate*

* The DSM Rate shall be as shown in the above table for the schedule applicable to Customer's monthly bill.

Customer billing demands shall be monitored on an annual basis and if Average Demand drops below the levels referenced in section 1 of the "Opt-Out" Provision, the customer shall be notified and removed from the "opt-out" option.

DEFINITIONS

1. Annual Review Period - The period of time between December 1 and November 30.

2. Amortization Period - The five-year period of time which the Company's DSM measures and program costs are deferred and amortized.

3. Customer Class - The Company's classification of customers based on similar energy usage characteristics. These are defined as follows:

Residential:

Rate 1 (RGC) – Good Cents Rate, Rate 2 – Low Use Residential Service, Rate 5 - Residential Service Time-of-Use, Rate 6 (RGCC) – Energy Saver / Conservation Rate, Rate 7 – Residential Service Time-Of-Use Demand, Rate 8 – Residential Service

Small General Service:

Rate 3 (M) – Municipal Power Service, Rate 9 – General Service, Rate 10 – Small Construction Service, Rate 11 – Irrigation Service, Rate 12 (C) – Church Service, Rate 13 (ML) – Municipal Service, Rate 14 – Farm Service, Rate 16 – General Service Time-Of-Use, Rate 22 (S) – School Service, Rate 28 – Small General Service Time-Of-Use Demand

Medium General Service:

Rate 19 – General Service Concurrent Demand Time-Of-Use, Rate 20 – Medium General Service, Rate 21 – General Service Time-Of-Use Demand, Rate 21A – Experimental Program - General Service Time-Of-Use Demand

Large General Service:

Rate 23 – Industrial Power Service, Rate 24 – Large General Service Time-Of-Use, Rate 27 - Large Power Service Real Time Pricing (Experimental)

SALES AND FRANCHISE TAX

To the above will be added any applicable sales tax, franchise fee or business license tax which may be assessed by any state or local governmental body.

PAYMENT TERMS

All bills are net and payable when rendered.

TERM OF CONTRACT

The contract terms will be the same as those incorporated in the rate tariff under which customer receives electric service.

GENERAL TERMS AND CONDITIONS

The Company's General Terms and Conditions are incorporated by reference and a part of this rider.

Opt-Out Provision for Large Commercial and Industrial Customers

1. Large commercial and industrial customers may be eligible to opt-out of DSM programs and costs so long as the conditions set forth below are being met. Eligible customers are those business entities using the Company's standard electric service with either: (1) an average of monthly billing demands over the past 12 months ("Average Demand") that is equal to or greater than 3,500 kW at a single site with contiguous services, or (2) for at least two non-contiguous premises, the sum of the Average Demands must be equal to or greater than 6,000 kW with each premise having an Average Demand equal to or greater than 100 kW. For the purpose of meeting the threshold in (2), a business entity is defined as a single corporation, partnership, company or individual owner and does not include individual franchise units of a business nor subsidiaries operating as a separate corporation or partnership. This provision is not available to entities which form an association or similar organization and is not available for residential customers or resale service.

2. Customers may not selectively opt-out of individual programs, but must elect to opt-out of all programs as a group for all eligible accounts.

3. Customers wishing to opt out of DSM programs and recovery of DSM costs shall certify in writing to the Company that they have conducted an energy efficiency audit within the past three years and are implementing measures that are at least equivalent in energy and demand savings to those anticipated under the Company's DSM program for the applicable customer class. Certifications shall be valid for 12 months.

4. Reductions in usage due to on-site generation, co-generation, shut down or reduction in usage of facilities, shifting of production to another site, or any other reduction not due to an increase in the efficiency of the equipment or processes per unit of output shall not qualify as an element of a Customer's energy efficiency plan.

5. Any Customer who participates in one of the Company's programs, or whose request to opt out is denied or discontinued, may not seek to opt-out for a period equal to the amortization period used by the Company in the recovery of program costs. Customers who opt-out but later elect to participate in one of the Company's programs may do so upon application to the Company. If acceptable to the Company, the Customer may participate in the Company's programs, but may not apply to opt-out again for a period at least as long as the amortization period.